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TO: Victor M. Mercado, Director
Chief of Utilities

FROM: Irvin Corley, Jr., Fiscal Analysis Director

DATE: May 4, 2007

RE: 2007-2008 Budget Analysis

24.

Attached is our budget analysis regarding the Water Department's budget for the upcoming 2007-2008 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing. We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:ss

Attachment

cc: Councilmembers
Council Divisions
Auditor General's Office
Roger Short, Finance Department Director
Pam Scales, Budget Department Director
Ervin Stewart, Budget Department Team Leader
Kandia Milton, Mayor's Office

Water Department (41)

FY 2007-2008 Budget Analysis by the Fiscal Analysis Department

Summary

The Water Department is an Enterprise Fund agency. The Water Department is administratively part of the Detroit Water and Sewerage Department (DWSD) while maintained as a separate fund in the City of Detroit accounting system.

The Mayor's Proposed Budget for 2007-2008 includes appropriations and revenues, each totaling \$334,230,623, to the Water Department, leaving a net tax cost to the City of \$0. This amount represents only 46.9% of the \$711,897,936 that was budgeted for 2006-2007. The \$377,667,313 difference is due, primarily to the lack of Revenue Bond sales of \$400,000,000.

2006-2007 Surplus/(Deficit)

There is no projected surplus or deficit for the Water Department of the DWSD for fiscal year 2006-2007.

Overtime

The Mayor's Proposed Budget for 2007-2008 includes \$5,655,577 for overtime this is a decrease of \$1,907,265 from the 2006-2007 budgeted amount of \$7,562,842. As of March 31, 2007, the Water Department has expended \$4,424,222 for overtime in 2006-2007.

Personnel and Turnover Savings

There are no projected turnover savings for the Water Department in the Mayor's Proposed Budget for 2007-2008.

<u>Appropriation/Program</u>	Budgeted	Filled	Mayor's	Over/(Under)	Mayor's
	Positions	Positions	Budget	Actual to	Recommended
	<u>FY 2006-07</u>	<u>3/31/2007</u>	<u>FY 2007-08</u>	<u>06/07 Budget</u>	<u>Turnover</u>
Water (41)					
411010 Office of the Director	10	9	9	(1)	\$ -
411015 Process Networks and Scada Syste	0	0	18	0	
411020 Public Affairs Division	33	24	33	(9)	\$ -
411080 Security	130	121	130	(9)	\$ -
411110 Information Systems Admin. Svcs.	49	50	49	1	\$ -
411200 Contracts & Grants	28	23	28	(5)	\$ -
411220 Commercial Operations	212	164	212	(48)	\$ -
411250 Meter Operations	85	53	87	(32)	\$ -
411280 Systems Operations Control	35	22	35	(13)	\$ -
411290 Water Technical Services	7	7	7	0	\$ -
411300 Operations Services	10	9	10	(1)	\$ -
00085 Administration	599	482	618	(117)	\$ -
412010 Ofc.of the Asst. Dir. Of Fin. Svc. Grp.	2	1	2	(1)	\$ -
412020 Financial Administrative Services	8	6	8	(2)	\$ -
412080 General Accounting Admin. Svcs.	61	47	61	(14)	\$ -

412220 Purchasing	25	17	25	(8)	\$	-
412230 Material Management	70	55	70	(15)	\$	-
00086 Financial Support Group	166	126	166	(40)	\$	-
414010 Ofc. of Asst. Dir. Asset Maintenance	7	4	7	(3)	\$	-
414130 Mechanical Opns. Administration	280	222	280	(58)	\$	-
414200 Water Board Building	46	26	46	(20)	\$	-
414240 Maintenance and Repair 2004	454	295	454	(159)	\$	-
414360 Central Service Facility	1	0	1	(1)	\$	-
00087 Facilities Management	788	547	788	(241)	\$	-
415010 Ofc. of Asst. Dir. of Water Opns.	6	5	6	(1)	\$	-
415020 Water Works Park	49	39	49	(10)	\$	-
415030 Springwells Plant	48	37	48	(11)	\$	-
415040 Northeast Plant	30	24	30	(6)	\$	-
415050 Southwest Plant	31	26	31	(5)	\$	-
415060 Lake Huron Plant	27	23	27	(4)	\$	-
415390 Water Quality	15	12	15	(3)	\$	-
00088 Water Operations Group	206	166	206	(40)	\$	-
413010 Ofc. of Asst. Dir. of Eng. Svcs.	3	3	3	0	\$	-
413020 Engineering Administrative Support	138	90	138	(48)	\$	-
05817 Engineering Services-Water	141	93	141	(48)	\$	-
41XXXX Leave of Absence	0	(20)	0	(20)	\$	-
41XXXX Worker's Comp	0	(40)	0	(40)	\$	-
41XXXX Unmatched Positions	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$</u>	<u>-</u>
TOTAL	<u>1,900</u>	<u>1,354</u>	<u>1,919</u>	<u>(546)</u>	<u>\$</u>	<u>-</u>

Proposed Layoffs and Position Changes

There are no proposed layoffs for the Water Department in the Mayor's Proposed Budget for 2007-2008. The Mayor's Proposed Budget for 2007-2008 includes a net addition of 19 positions.

Significant Funding Changes by Appropriation

<u>Appro.</u> 00085	<u>Program</u> Administration	The Mayor's Proposed Budget for 2007-2008 includes \$55,763,368 for Administration. This amount is \$4,726,756 more than the 2006-2007 Budget of \$51,036,612. This increase is largely due to increases of \$6,479,000 in utilities-electricity and \$3,493,285 in contractual services-miscellaneous, offset by a decrease of \$1,974,260 in salaries and wages and other miscellaneous expenses.
00086	Financial Services Group	The Mayor's Proposed Budget for 2007-2008 includes \$5,765,948 for the Financial Services Group. This amount is \$904,511 less than the 2006-2007 Budget of \$6,670,459.

		The decrease is largely due to decrease of \$1,259,370 in miscellaneous expenses offset by employee benefit increase.
00087	Asset Maintenance Group	<p>The Mayor's Proposed Budget for 2007-2008 includes \$42,602,976 for the Asset Maintenance Group. This amount is \$4,825,233 less than the 2006-2007 Budget of \$47,428,209.</p> <p>This decrease is due, primarily, to a decrease of \$6,430,668 in other expenses showing greater allocation of costs to Sewerage side.</p>
00088	Water Operations Group	<p>The Mayor's Proposed Budget for 2007-2008 includes \$50,027,251 for the Water Operations Group. This amount is \$1,913,946 less than the 2006-2007 Budget of \$51,941,197.</p> <p>This decrease is largely due to decrease of \$3,908,669 in other expenses offset by increases in employee benefits and operations supplies.</p>
05817	Engineering Services – Water	<p>The Mayor's Proposed Budget for 2007-2008 includes \$3,670,380 for Engineering Services. This amount is \$1,515,815 less than the 2006-2007 Budget of \$5,186,195.</p> <p>This decrease is largely due to a decrease of \$1,644,996 in other expenses.</p>
00163	Debt Service and Maintenance	<p>The Mayor's Proposed Budget for 2007-2008 includes a total of \$133,906,800. This amount is \$17,399,236 more than the 2006-2007 Budget of \$116,507,564.</p> <p>The increase is due to an increase of \$13,339,236 in interest and a \$4,060,000 increase for the retirement of debt principle.</p>
00164	Water System Improvements	<p>The Mayor's Proposed Budget for 2007-2008 includes a total of \$37,493,900. This amount is \$6,409,100 more than the 2006-2007 Budget of \$31,084,800.</p> <p>The decrease is due to an increase of \$6,409,100 in other expenses.</p>
00583	Water Extraordinary Repair and Replacement	<p>The Mayor's Proposed Budget for 2007-2008 does not include an appropriation. The appropriation for the 2006-2007 Budget was \$196,000.</p> <p>The decrease is due to a decrease in other expenses.</p>
005733	Reserve Deposit	The Mayor's Proposed Budget for 2007-2008 includes a total of \$5,000,000. This amount is \$3,153,300 more

than the 2006-2007 Budget of \$1,846,700.

The increase is due to an increase of \$4,500,000 for bad debts and a decrease of \$1,346,700 in other expenses.

12140 Water Bond Fund The Mayor's Proposed Budget for 2007-2008 does not
Series 2007 include an appropriation. The appropriation for the
2006-2007 Budget was \$400,000,000.

The decrease is due to a lack of bond sales equaling \$400,000,000.

Water (41)

Budgeted Professional and Contractual Services by Activity	FY 2006-07 Budget	FY 2007-08 Recommended	Increase (Decrease)
Administration Services	\$ 11,127,981	\$ 14,180,916	\$ 3,052,935
Financial Services	2,482,317	2,416,000	(66,317)
Asset Management	10,384,000	11,123,248	739,248
Plant Operations-Water	2,790,020	2,873,821	83,801

Significant Revenue Changes

04826 Revenue Water The Mayor's Proposed Budget for 2007-2008 includes
Receiving revenue of \$318,306,323 this is \$16,387,287 more than
the 2006-2007 Budget of \$301,919,036.

This difference is largely due to a \$6,894,354 increase in revenue from the retail sale of water and a \$10,996,221 increase in the wholesale sale of water, supported by rate increases approved by Council.

00163 Debt Service and The Mayor's Proposed Budget for 2007-2008 revenue of
Maintenance \$3,365,700 for debt service and maintenance. This is an
increase of \$1,328,200 more than the 2006-2007 Budget
of \$2,037,500.

This difference is due to an increase from the earnings on investment.

00164 Water System The Mayor's Proposed Budget for 2007-2008 revenue of
Improvements \$981,800 for water system improvements. This is an
increase of \$315,400 from the 2006-2007 Budget of
\$666,400.

This difference is due to an increase from the earnings on investment.

11487 Water Bond Fund The Mayor's Proposed Budget for 2007-2008 revenue of
Series 2005 \$10,589,400 from the Series 2005 Bonds. This is an
increase of \$10,589,400 from the 2006-2007 Budget of
zero.

This difference is due to an increase from the earnings on investment.

12140	Water Bond Fund Series 2007	The Mayor's Proposed Budget for 2007-2008 revenue of zero from the Series 2007 Bonds. This is a decrease of \$406,305,700 from the 2006-2007 Budget.
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The decrease is due to a lack of bond sales.

Issues and Questions

1. Please explain \$3.8 million increases in contractual services.
2. How are salaries going down \$7,010,967 when there is an increase of 19 positions?
3. There is a decrease of \$1.9 million budgeted for overtime in 2007-2008. How will the Water Department achieve the decrease in overtime expenditures?
4. What is included in Other Expenses? What is included in Miscellaneous Revenue?
5. Expenditures related to bad debt are budgeted to increase \$4,500,000. Why?
6. How much is budgeted for the Water Affordability Program?
7. What is the overall impact of fuel increases to Water's budget in 2007-08? What are your plans to reduce this cost?

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